

# Office of the City Auditor City of San Diego

## **Citywide Revenue Audit Fiscal Year 2010**

**Citizens Revenue Review and Economic Competitiveness Commission  
March 11<sup>th</sup>, 2010**



# Office of the City Auditor

## City of San Diego

### **Introduction**

# Background

- Citywide revenue audit requested by Councilmember Tony Young on April 30, 2009
- Purpose: review the major revenue sources within the City of San Diego

# Objectives

- The objectives of the audit were fourfold:
  - ◆ Identify all major sources of revenue for the City of San Diego that are distributed to the City through a third-party;
  - ◆ Determine which entity is responsible for auditing the revenue sources;
  - ◆ Recommend a strategy for auditing revenues for which there is no entity with auditing authority; and
  - ◆ Evaluate the performance of the Revenue Audit Division of the City Treasurer's Office.

# Scope

- The scope of the audit included major revenue received for fiscal years 2007 through 2009, unless otherwise noted in the report.

# Major Revenue Categories

Category	FY2010 Budget Amount*
Property Tax	\$ 396,818,843
Sales Tax	\$ 217,198,749
Transient Occupancy Tax/Tourism Marketing District	\$ 75,907,285
Franchises (includes Refuse Haulers)	\$ 74,586,929
Leases, Rents & Concessions	\$ 43,897,570
TransNet	\$ 26,299,528
Gas Tax	\$ 24,295,928
Business Tax/Rental Unit Tax	\$ 15,556,861
Fines, Forfeitures, Penalties	\$ 7,693,928
Motor Vehicle License Fees	\$ 3,900,000
<b>TOTAL</b>	<b>\$ 886,155,621</b>

\* Please see Table 1 of audit report and related footnotes. Figures are mostly FY2010 Adopted Budget amounts; some are taken from prior years' budgets due to changes in accounting. These are noted throughout the report.

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### **Property Tax**

# Property Tax Background

- Based on value of property
- Base tax: 1% of assessed value
- Allocated to cities, school districts, redevelopment agencies, special districts, and the County according to State code
- Comprise approximately 34% of General Fund budget



# Issues for Review

- Risk of misallocation of revenues is somewhat addressed by the following:
  - ◆ State audits of County allocation and apportionment
  - ◆ Current Financial Management practice
- However, this is not enough to adequately ensure accurate apportionment.

# Recommendations

- Develop a Memorandum of Understanding with the County of San Diego to ensure access to required information allowing the City Treasurer's Revenue Audit Division to review property tax allocations to the City and observe the next State audit of the County.
- The Financial Management Department should take steps to obtain State audits of County property tax allocations, and review any relevant findings/recommendations for purposes of follow up.
- The City Treasurer's Office should consider providing business registration information to the County Assessor's office, and inform new businesses registering in the City of San Diego that they may be required to pay unsecured property tax to the County.
- The City of San Diego should consider streamlining its communication with the County of San Diego's Assessor's Office to ensure the County's possessory interest records are up to date.

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### **Teeter Plan**

# Background

- Alternative method of property tax allocation
- Allows counties to allocate 100 percent of property taxes *billed* rather than property taxes *collected*
- City continues to receive penalties and interest on delinquent accounts up to 12 months
- County collects all future delinquent tax payments, penalties, and interest and distributes them to the County's Tax Losses Reserve Fund
- San Diego County adopted the Teeter Plan in 1993
  - ♦ Cities of Coronado, National City, and Vista opted to participate.
  - ♦ All other cities within the County are allocated property taxes in the method previously mentioned

# Overview

- **Benefits & Costs of Participation**

Benefits	Costs
Stable and reliable revenues	Loss of future delinquent property tax revenue
Simplified allocation process	Cannot opt-out once in

- **Becoming a Participant**

- ♦ The County of San Diego does not have a formal process for becoming a Teeter participant.
- ♦ Should an entity provide formal notification to the County that it wishes to join, the County Board of Supervisors will make a final determination regarding the request and the opt-in period.

# Analysis

- We estimate that had the City been a part of the Teeter Plan in fiscal years 2007 through 2009, the City would have received an additional \$6.39 million in property tax revenue.
- San Diego County Property Tax Services Division's analysis: additional \$29.7 million in immediate property tax revenue over the course of the last three fiscal years
  - ♦ Estimate of property tax revenue received by the City in addition to the amount collected at each year end is between \$8-11 million
- Difficulty of estimation due to the following:
  - ♦ County is unable to provide data for the value of delinquent accounts based on the age of the account
  - ♦ Difficult to accurately calculate the amount of penalties and interest the City of San Diego would lose were it to become a participant in the Teeter Plan

# Recommendation

- The City's Financial Management Department should evaluate the benefits of joining the Teeter Plan, and unless there is compelling information to suggest otherwise, take appropriate steps to become part of the Plan.

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### **Sales Tax**



# Sales Tax Background

- Assessed as percentage of amount purchased
- San Diego County tax rate: 8.75%
  - ◆ Components
    - ✦ Statewide Sales and Use Tax
    - ✦ Safety Sales Tax
    - ✦ TransNet Tax
    - ✦ San Diego County Transportation Tax
    - ✦ Sales Tax Triple-Flip
- Allocated according to tax area codes

# Issues for Review

- Risk of inaccurate sales and use tax remittance is somewhat addressed by the following:
  - ◆ Sales tax audits performed by the State Board of Equalization
  - ◆ City contract with MuniServices, LLC
- However, we found:
  - ◆ Preventative measures taken by the City may decrease the need for services provided by MuniServices, LLC
  - ◆ City can do more to address the risk of misallocations from the Sales Tax Triple-Flip

# Recommendations

- Consider having the City Treasurer's Revenue Audit Division utilize the free audit training offered by MuniServices, LLC to reduce reliance on MuniServices for future sales and use tax audit services.
- Financial Management should review gross Safety Sales Tax revenues annually in order to verify the accuracy of Safety Sales Tax allocations to the City.
- Financial Management should annually reconcile Sales Tax Triple-Flip funds received from the County with ERAF shift loss detailed in BOE sales tax reports.

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### **Transient Occupancy Tax/ Tourism Marketing District**

# TOT/TMD Background

- Purpose is to advance City's economic health
- Current TOT rate: 10.5% of rent charged by registered operator
- TMD: additional 2% assessment on lodging businesses with 70 or more sleeping rooms within Tourism Marketing District
- Audits performed by City Treasurer's Revenue Audit Division

# Issues for Review

- Registered operators are not required to maintain records for more than three year
- Utilization of an audit cycle greater than three years for certain registered operators may result in inadequate access to records

# Recommendation

- Based on the requirement for hotel operators to maintain records for a period of three years, the Revenue Audit Division should perform audits on a three-year cycle.

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**Questions?**